5TH ANNUAL SUPERMARKET SURVEY

SEAFOOD MARKETING • INSPECTION • ALLIGATOR

MARCH/APRIL 1990
VOLUME 9, NUMBER 2

Seafood Business

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Seafood Business

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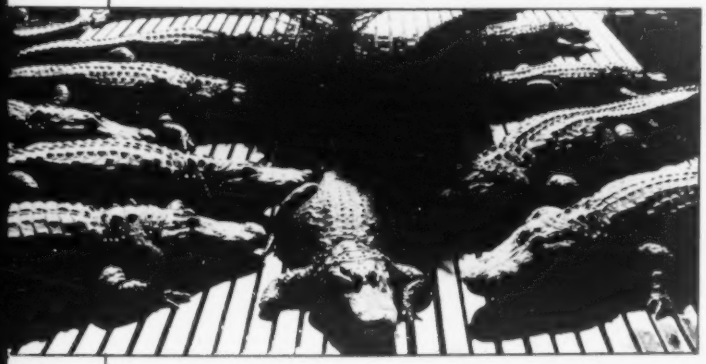

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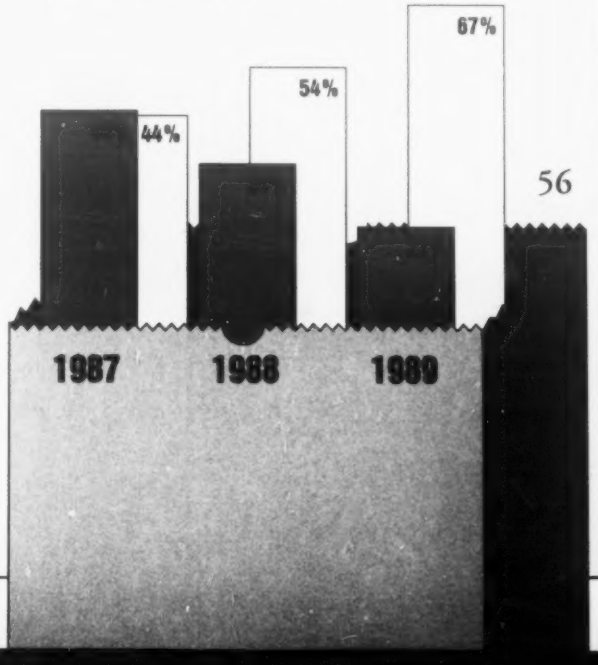

FROM THE PUBLISHER

Seafood's Next Frontier

In a recent Food Marketing Institute survey of retailers, 84 percent of the respondents said their commitment to seafood is increasing. With that level of commitment, there can be no doubt that retail is one of the fastest-growing segments for seafood sales. The FMI survey is not an isolated case. The trend is also evident in our own supermarket survey presented in this issue of *Seafood Business*.

Each year we survey our retail readers, and each year we've found growth. Seafood is coming out from under the auspices of the meat department and into its own, dedicated seafood department. Employees are being better trained, more square-footage is being devoted to seafood products, more advertising and promotional dollars are being spent on seafood, and buyers are actively seeking a larger variety of seafoods to offer their customers.

What's behind the retail commitment to seafood? The seafood department is an image-builder and a traffic pull, say 67 percent of the FMI survey's respondents. Only 27 percent consider the seafood department a profit center, but I'll bet that's 27 percent more than a survey might have indicated five years ago.

Though they've made the commitment, retailers still face several challenges in the coming years as they work toward the goal of profitability in their seafood departments. Training and motivating their employees may be the biggest challenge, one that is shared by restaurants. Because seafood is still the underdog in the protein department, consumers lack the confidence and knowledge they need to make selections from a self-service counter.

The seafood department staff must not only be knowledgeable about seafood identification, distribution, cooking performance and serving suggestions but must be able to assure the consumer that the product is safe. They also must be sales and service oriented to help consumers overcome any hesitancy to buy seafood. In our survey report beginning on page 56, retailers offer some ideas about where to find seafood department staff and how to keep them.

Another challenge facing retail-seafood profitably is shrink. Shrink may be defined as pounds that are paid for but not sold. The goods may not have been fully delivered in the first place, or are unsalable due to waste or quality loss. Our article on page 68 explains how to limit shrink in the seafood department.

In the challenge to alleviate consumer concerns about seafood safety, several retailers have enlisted in USDC's voluntary inspection program and have incorporated the government's endorsement into their marketing programs. Learn more about this development in the article on page 92.

We applaud and support retailers' commitment to seafood and their continued efforts to make seafood departments profitable. Restaurant seafood sales represent the biggest chunk of the seafood dollar, but it's the food consumed at home that presents the greatest opportunity to divert market share from beef and poultry.

Nancy Hasselback

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Retailers are getting serious about seafood. They're increasing floor space, training their staffs and learning how to handle product. Our fifth annual survey reflects a retail sector willing to make course corrections to ensure success.

SUPERMARKET 1990 SURVEY

By Kathrine Marris

After a period of heady growth, the retail-seafood industry is taking a hard look at quality, making adjustments for a tight labor market, responding to new market situations and holding its own through aggressive marketing. Our fifth annual retail survey reflects an industry that's making the changes necessary to retain and build upon its customer base and keep profits up.

Sometimes, that means redirecting a focus, which has occurred in the new emphasis on frozen product. That could have some long-term ramifications — especially if consumers can be sold on the idea of buying fish in the frozen state. Change can also mean a mid-course correction, like switching from full-service to self-service, which emerged as a strong trend.

And then there's shrimp. Lots and lots of shrimp. It is the biggest seafood mover and the fastest-growing item. Lower prices have pushed salmon to new heights, too.

Our survey responses represent over 2,600 retail outlets. Bear in mind that the seafood professionals providing the data are *Seafood Business* readers and therefore more seafood-oriented than the average retailer.

From fresh to frozen

An interesting development is the decrease in sales of fresh product as a percentage of the total. Fresh sales peaked in 1987, when they accounted for 57 percent of the market. They dipped in 1988 and bottomed out at 45 percent in 1989, although it should be noted that the percentage of fresh sales varied widely — from 10 to 90 percent.

The difference isn't attributable to canned, live or smoked products, which have remained stable. Value-added items are up over 1988 sales, but they're still just 3 percent of the total.

What's been replacing fresh fish is frozen fish — up to a hefty 44 percent. More IQF product, more Alaskan product and heavier sales of imported shrimp could all be factors. It is interesting to note the difference in operators' and customers' opinions about fresh vs. frozen.

Some stores are known for fresh product. Rick Cavanaugh of Seattle's Queen Anne Thriftway describes his customers' preference: "Frozen? They'll shy away from it. You put it out there, they pick it up and put it down if it says frozen. They'll go to chicken or hamburger or something else if there's a lack of fresh fish." They'll make an exception for halibut or blackcod, though, he adds.

Bucking the trend is Minnesota-based Cub Foods. The 80-store chain is selling more and more fresh product, shipping it into the Midwest by air and promoting it as "Fish in a Flash." Fresh sales are doubling and tripling, according to Steve Kaczynski, corporate director of meat and deli.

At the other end of the spectrum is Pasadena-based Trader Joe's, a chain of stores that Senior Buyer Doug Rauch characterizes as "very

difficult to describe — sort of a cross between a specialty food store, a natural food store, a European store and a flea market."

One thing Trader Joe's does extremely well is sell fish. A whopping 6 percent of the chain's gross sales comes from seafood, and Rauch said, "At times, our 30 stores sell more than chains with 300 stores."

What makes this so remarkable is that all the fish Trader Joe's sells is purchased in a frozen state. The chain's "fearless flyer" educates consumers about on-board freezing techniques and factory-trawler operations. Since 1984, they've been selling IQF product: everything from Alaskan cod to Chilean sea bass to Dungeness crab to scallops, shrimp and swordfish — and a recent winner, butterfly kingfish. Sales have increased every year, and the highest growth is in the non-shrimp area.

If trends start in Southern California, Trader Joe's approach to selling IQF product will certainly bear watching.

Full-service on the wane

The trend away from full-service, which first showed up in last year's results, continues. Our survey shows that, measured by stores or units, 58 percent of fresh seafood was sold through a full-service counter in 1989. This is a substantial drop from last year's 69 percent figure, but when you look at the last five years, it becomes clear that full-service is diminishing more slowly than it grew. Full-service reached a peak in 1987, when, according to our survey results, it accounted for 71 percent of sales.

The reason most often stated for eliminating full-service is the cost of labor. Given that a labor shortage is an important concern for the supermarket industry — many of our interview subjects call it the No. 1 problem facing supermarkets today — that trend is not surprising.

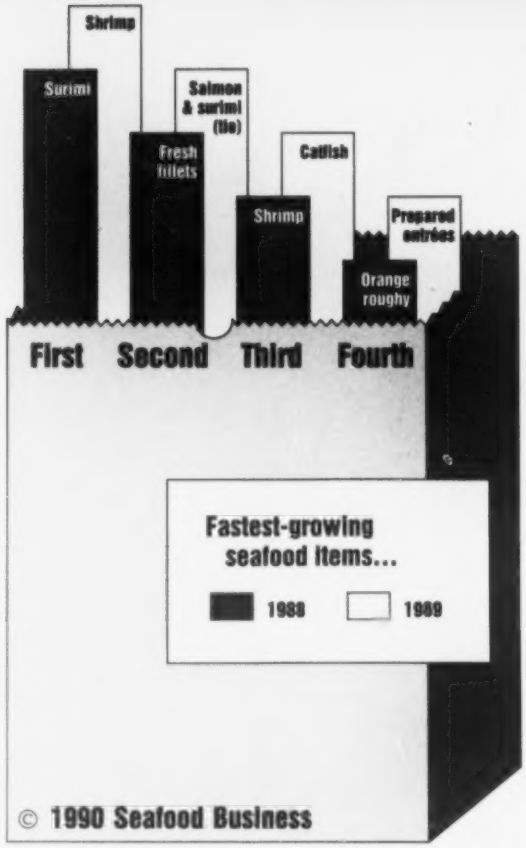
In follow-up interviews, some managers operating full-service cases bristled at the suggestion that they aren't profitable. "We're expected to make a profit, and we do make a profit," said one. But others acknowledged that full-service cases could be break-even traffic builders, or even loss leaders. One Midwestern store that just brought in full-service said the shakedown period was considerable. Shrink was cited as a problem.

"We didn't know how much to order," the manager told us, adding that his department wasn't expected to be profitable for at least a year.

The average full-service case is 16 feet long, as opposed to 13 feet for self-service.

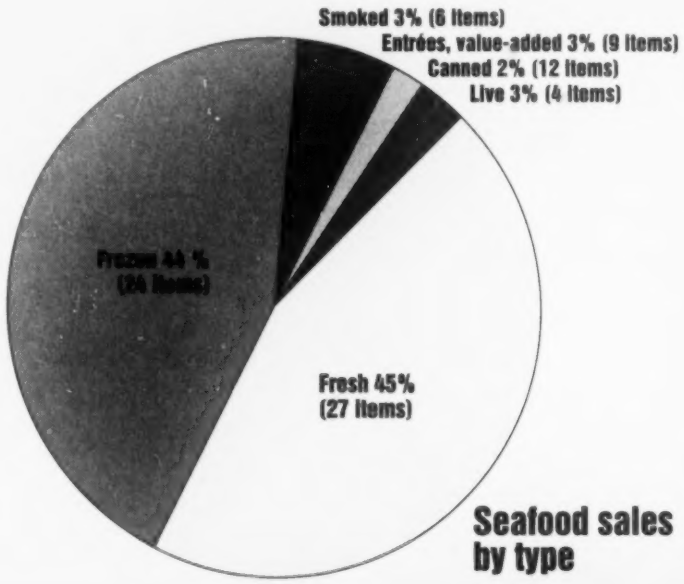
Oceans of shrimp

To no one's surprise, shrimp represents the



The Average Supermarket, 1989

Average gross margin...			
Fresh seafood	33.7%	Square-footage of seafood department	925
Frozen seafood	28.5%	Percent of space devoted to seafood	2.5%
Canned seafood	29.7%	Percent of total sales from seafood	2.1%
Value-added	38.0%	Annual seafood sales per unit	$303,000
Full-service	31.0%	Percent of sales from full-service case	58%
Self-service	29.3%	*Average length*	16 feet
TOTAL SEAFOOD	29.5%	Percent of sales from self-service case	42%
		Average length	13 feet


Smoked 3% (6 items)
Entrées, value-added 3% (9 items)
Canned 2% (12 items)
Live 3% (4 items)
Frozen 44 % (24 items)
Fresh 45% (27 items)
Seafood sales by type

FMI's information services can help keep seafood sales on course

Looking into a crystal ball (while armed with survey results), it is possible to make some educated guesses about the future of seafood and supermarkets. But wait — you don't have to run down to Madame Poleska's Palmistry Parlor or send out survey sheets; the work has already been done for you.

The Food Marketing Institute, a Washington, D.C.-based non-profit association of 1,600 food retailers and wholesalers representing 17,000 retail stores with a combined annual sales volume of $180 billion, has its own crystal ball and the results of numerous surveys.

According to FMI's crystal ball (and Food and Agriculture Organization projections), the prospects for the seafood industry look good. By the year 2000, more than 100 million metric tons of fishery products will be harvested annually worldwide, up from 93 million metric tons harvested in 1988. Per capita consumption in the U.S. is also expected to rise. The other news is that the consumer for whom the supermarket industry was created is all but disappearing; targeting markets is becoming more complex; household size is shrinking; and consumers may have more money but they have less time to spend it.

This is where FMI, with a little help from its crystal ball and information resources, can help the industry anticipate trends and changing markets. Facts and figures and projections are just part of the extensive information arsenal FMI has developed to eliminate as much guesswork as possible for you, the food retailer and wholesaler.

FMI has expert full-time and volunteer professionals ready to share information. President and CEO Robert O. Aders is assisted by six senior vice presidents responsible for research and education, public affairs and general counsel, administration and finance, marketing and field services, strategic planning, and convention and meeting services. FMI's structure also includes Education Manager Jeanne von Zastrow and committees comprised of member volunteers who are supermarket executives.

Services offered by FMI include referrals to experts in the food industry; access to a collection of resource materials, including annual reports, government reports, video and audio tapes, newspaper clippings, magazines, FMI reports, books and more; a staff of information experts with 30 years' experience to provide information services; the latest titles in the book and report collection; custom research; and a calendar of industry- and food-related events.

FMI also sponsors an annual seafood conference. Don Ledford, seafood sales manager for Winn-Dixie Stores, the nation's fifth-largest chain, was chairman of FMI's 1989 Seafood Conference in Tampa, Fla., and is chairman of the seafood committee. The 1990 seafood conference will be held at the Century Plaza Hotel in Los Angeles Sept. 16-19.

FMI will hold its 1990 convention May 6-9 at McCormick Place, Chicago. A highlight of this year's convention will be the introduction of a specially designed seafood-exhibit section. Michael Muldoon, FMI senior vice president for conventions and meetings, noted that surveys have shown that a large percentage of the show's attendees are interested in seafood.

Speaking at FMI's 1989 Seafood Merchandising Conference, A. Dano Davis, chairman of Winn-Dixie Stores, offered his view of the future of seafood and supermarkets: "Looking to the year 2000, the most successful retailers will be those who prove to be the best purchasing agents for their own, unique customers. They will be proactive — prepared for, not just reacting to, changes. So polish your crystal ball. Anticipation and planning will be the key."

In addition to polishing your own crystal ball, call FMI and get a reading on theirs.

—Karen Straus

largest volume of all seafood products, with 66 percent of chains telling us shrimp is their biggest mover. Shrimp also came in first in 1988, but not as overwhelmingly, at 44 percent.

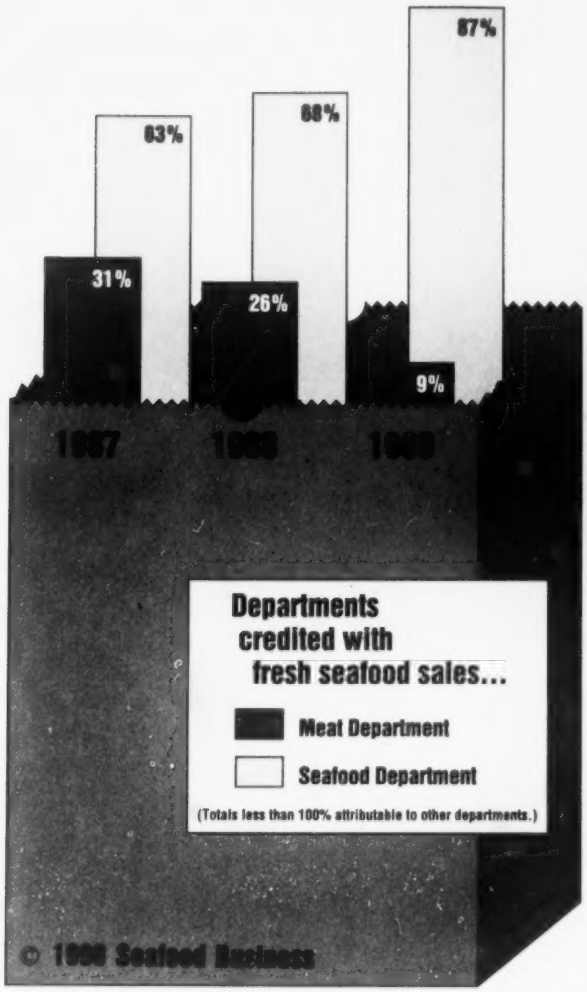
Low prices and plenty of product made shrimp a highly promoted retail item, especially in holiday sales during the last quarter of 1989.

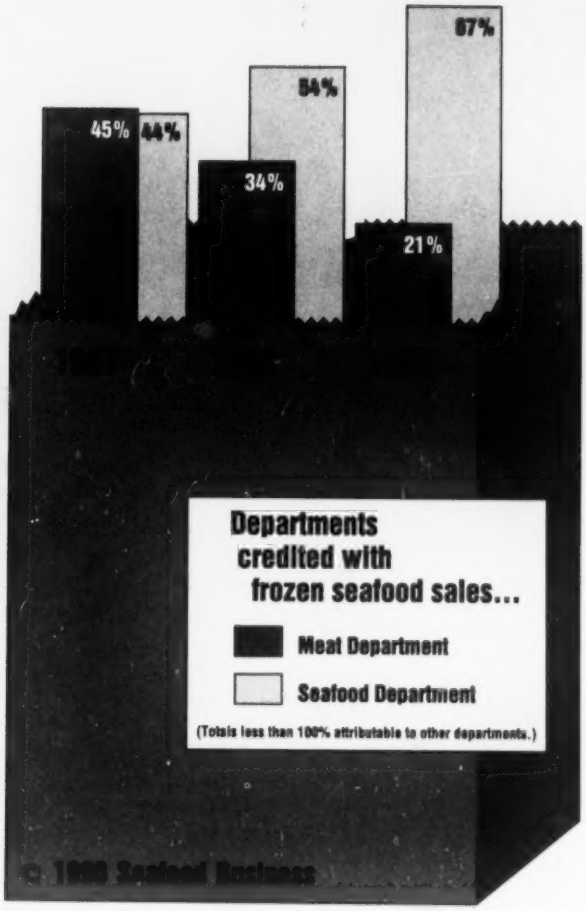
The shrimp everyone has been talking about, the black tiger, has made inroads all over the country, but some stores still aren't selling it and are doing a big shrimp business with other species. Also mentioned as top sellers are fresh fillets, catfish and orange roughy, although some operators told us they'd love to find an orange roughy taste-alike that isn't so pricey.

Coming on strong

It also comes as no surprise that shrimp top the list of fastest-growing items for 27 percent of our respondents. Tied for second place are surimi seafoods and salmon.

Those surimi-based products go beyond imitation crab. One Western seafood manager told us he bought a case of Sea Franks, a surimi-based hot dog, "primarily because of the persistence of the salesperson. The people I work with laughed at me." To his surprise, the item was a brisk seller, with customers coming back and





asking for more. "They move so well," he said, slightly bemused.

Abundant farmed salmon provided retailers with consistent product at a low price during 1989. Tom DeVries of Michigan's D & W Food Centers calls farmed salmon "a real winner. When the Norwegian market was soft, it was very nice for us. We had attractive price points and really blew out a lot of product."

Joe Cooper of Pennsylvania's Cooper's Seafood terms his salmon sales "unbelievable." Ten months ago, he said, he was selling "maybe a hundred pounds a week. Now it's eight-hundred to a thousand pounds a week."

Value-added is still shaking out, creating both opportunities and pitfalls.

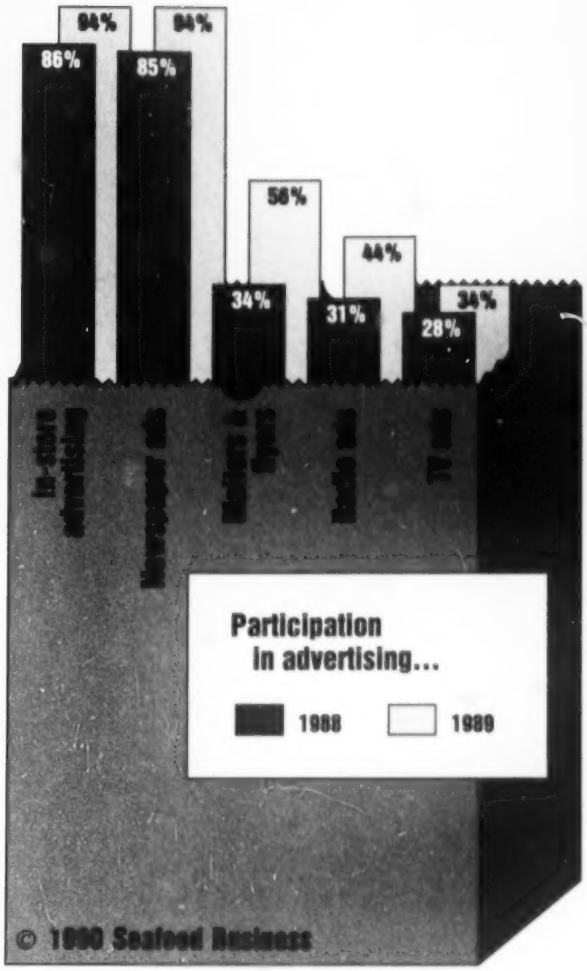
Third-ranked catfish has come a long way from home, but it's still bucking a reputation as a regional specialty. A Northwestern seafood manager reports that it sells best to Southern transplants. Another Western manager told us his customers shy away from freshwater fish, with the exception of trout, but a Midwestern source said his generally fish-shy customers like freshwater fish, making catfish an easy sell for him.

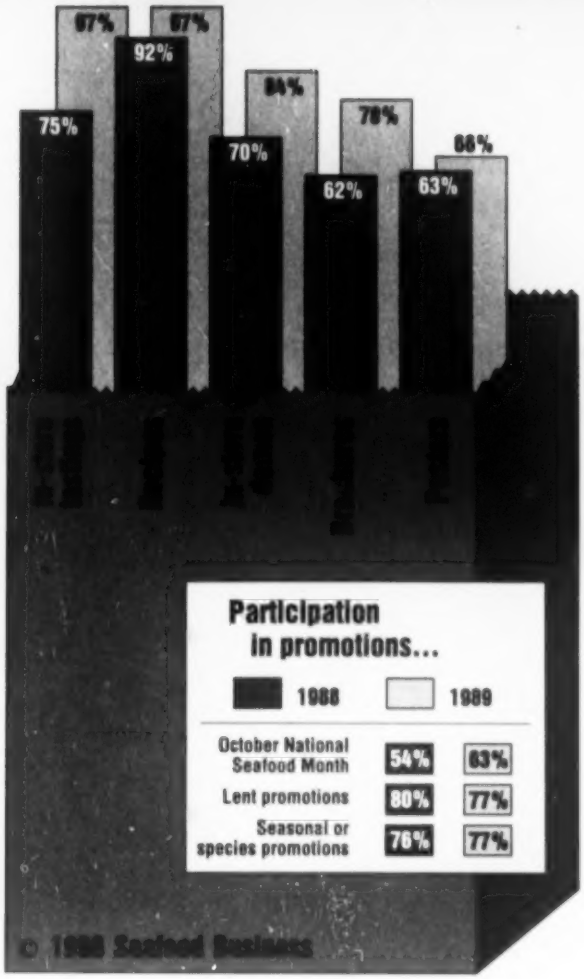
Fourth in growth is value-added product, which has tripled since last year's survey, although it's still a small slice of the pie at 3 percent. Salads and chowders remain popular, but there are more entrees out there. The value-added area is still shaking out, creating both opportunities and pitfalls.

We've heard respondents voice satisfaction with higher markups and express concerns about perishability and resulting shrink. Stores are reluctant to get involved in the labor-intensive production of their own value-added items and raise questions about quality when bringing frozen product in from outside.

Addition and subtraction

Dropped items are all over the map, with no clear patterns emerging. Species that are found wanting range from highly esoteric items to the





more basic trout, orange roughy, haddock, turbot and sole, with some operators indicating they've eliminated higher-ticket items.

Additions are generally in the value-added area — pre-made entrees like stuffed sole or Cajun-flavored catfish, salads and appetizers. Hoki showed up in the addition column, too. Several operators told us in interviews that they are looking at tilapia.

One retailer calls the labor crunch "the biggest problem facing us in the nineties."

Labor pains

One retailer calls the labor crunch "the biggest problem facing us in the nineties," adding that after new employees are trained, they leave. Another seafood manager, when asked what he's doing to get and keep good people, said, "I'm not telling." He did confide, however, that his employees receive commissions when sales go beyond a certain level. One operator claims, "I don't have a problem because I pay them a lot and I give them a commission."

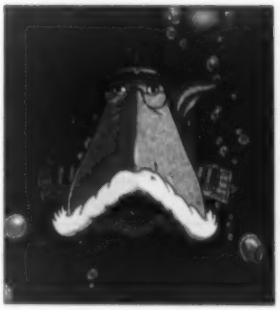
Another tip is creative recruitment. Bob English of Larry 's Markets in Seattle said he gets people "from all areas of the industry: fishermen, a chef, people from the processing end, born-and-raised fishmongers, NMFS observers." He looks for "a high level of enthusiasm for seafood."

Peter Gryska of the Texas H. E. Butt chain said his stores are doing "a lot more training. We've always done a lot, but now we're trying to formalize it and get a good group of people in our stores."

With labor tight, retailers are more and more enthusiastic about getting product that requires less work at store level. "I would like to do a lot less prep," said Gryska. "Anything that's ready to go into the counter will get there a lot faster."

This came up when we asked respondents how suppliers can improve product. "Make and pack product in user-friendly, retail-sized units," said one. "Be more customer oriented in pack size and forms," said another.

Some retailers look to suppliers for help with



Has the national "Spokesfish" campaign increased seafood sales?

62% said yes,

38% said no.

Several responded that the campaign kept sales from slipping.

employee training and recipes and demos. They also wish they could get more deliveries and more consistent product.

But when it comes to the product they receive, the overwhelming concern of retailers is quality. "Quality, not junk!" wrote one. "Quality, quality, quality," said another. "Don't send us poor-quality product," pleaded one respondent, who blames dipping seafood sales on "too many non-qualified people who are just trying to make a fast buck."

A full 90 percent of our respondents want mandatory federal inspection of seafood, which is to be expected, considering that 97 percent report that their customers are concerned about contamination or pollution. Ninety percent told us that their employees are trained to answer consumer questions about the wholesomeness and safety of product.

When we asked why seafood sales have dipped, consumers' safety fears, sometimes stated as "negative media coverage" or "bad publicity," were named as an important factor, but there is concern about price, too. "Seafood cannot cost more than beef," stated one respondent.

Consistency was also cited as a problem. "Stop the feast-or-famine approach," wrote one retailer. Other respondents said their sales were just fine, thank you.

The sleaze factor

Some of our retailers are hopping mad about short weighting. One wrote simply: "Get the crooks out of the business!!!"

Several operators told us they weigh everything they receive and make adjustments on invoices when necessary. They feel that letting suppliers know they will brook no nonsense prevents problems, and they feel they have good relationships with their suppliers.

Others are less optimistic. One East Coast retailer told us: "Weights are murderous. They kill you. It's a nightmare." When he complains or tries to take a credit, he said, his suppliers tell him: "Don't you dare. You gotta bank on that."

The marketing edge

Participants in our survey are motivated seafood people. In follow-up interviews, many of them said that if seafood sales are slipping, they

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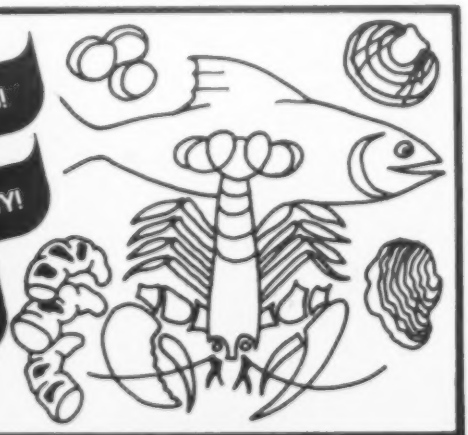
Circle Reader Inquiry # 50

If any one attitude emerges, it is the retailers' willingness to adjust to new conditions and work around changes.

haven't noticed. Several said their results are limited only by supply, and they credit their success to commitment to quality, good salespeople and vigorous marketing efforts

In-store tastings and recipes are the No. 1 marketing tools, and an overwhelming 97 percent of respondents use them to educate their customers. Most of them get help with demos and tastings from suppliers, and many said they'd do more if they got more help. Assistance ranges from donated samples to co-op funding to picking up the entire tab.

Seventy-seven percent offer Lenten promotions, a slight drop from last year. Sixty-three percent of respondents tie promotional activity to National Seafood Month in October, a slight rise from a year ago.

When we asked, "Has the national Spokesfish campaign increased seafood sales?", 62 percent said yes and 38 percent responded no — often reflecting geographic areas. The campaign was focused primarily on the coasts and in the Southeast. Several answered that the campaign has kept sales from slipping.

If any one attitude emerges from the survey and the follow-up interviews, it might be flexibility — the retailers' willingness to adjust to new conditions and work around changes in price, supply and consumer demands.

Queen Anne Thriftway's Cavanaugh reflects this in his own attitude about supply fluctuations: "I'm going to have to be more creative in my buying. Today I have mahi mahi cheeks up from Costa Rica. Instead of going with more traditional sources, I'm going with different things. When the weather's not good, I have to be able to adjust with different species."

Adjusting, fine tuning, coming up with new solutions, whether in buying, hiring or marketing — these are skills any retailer needs to prosper, or even survive. Maintaining flexibility and the willingness to change is perhaps nowhere more important than in selling seafood. □

Kathrine Marris is Seafood Business *Pacific editor.*

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